

The Nuts and Bolts of Nonprofit Mergers and Consolidation

by Jan Glick

Why Merge or Consolidate?

- **Most nonprofits are tiny:** Majority under \$1M in revenues
- **Average nonprofit is financially vulnerable:** insufficient revenue diversity, increasing health care costs, decreases in government funding, dipping into operating reserves, having cash flow problems
- **Need for services is steadily increasing.**
- **Difficult for many nonprofits to grow to a sustainable size and achieve sustainable business model.**
- **Over 1.4 million nonprofits in the U.S.**

Why Merge or Consolidate

- Achieve economies of scale faster; achieve a sustainable financial model faster.
- Achieve mission and vision faster, more directly.
- Improve the agency's financial condition.
- Build capacity to plan for and secure more sustainable funding.
- Build capacity in functional areas & lines of business.

Why Start Down This Road?

Best Case: Enlightened agency/board has visionary goals, & sees limitations of own business model and/or situation.

Sometimes: "Outside" party such as a key funder may make a suggestion. Even if such outsiders are objective, third party suggestions are not always easily accepted by the agencies themselves.

Most Common Today: An agency in (financial) trouble seeks partner to assure continuance of programs early enough so assets (financial, human and intangible) remain significant. If situation deteriorates far enough, it may be difficult or impossible to find a partner.

Critical Success Factor

In order to be successful, the two organizations involved must feel a sense of urgency to undertake such a major change.

Establish and Communicate Vision of Success Early

Uplifting common vision needed to provide direction & retain interest and commitment of parties when differences may threaten to derail the process.

It's critical – there has to be a pot of gold at the end of the rainbow for two organizations to take this journey.

Typically, vision is of synergy and program growth with combined resources and programs.

In one instance, a consolidated budget that offered more security fulfilled this purpose. (not necessarily glamorous!)

Overcoming Barriers

- Internal self-assessment to determine if your organization is a good candidate for a merger
- Inter-organizational assessment to determine whether a particular partner would be good match
- Politics of each organization and political environment in which the organizations operate
- Culture clash
- Self-interest: Examples: Not all EDs pursue mergers, as their position may become a Deputy Director, or eliminated altogether. Board members may have self-interests as well.

What Happens to Staff?

- Most nonprofits not large enough for many, or any, staff positions to be eliminated. Front-line program staff are critical to provide services. For example, in the 20+ mergers JGA has worked on, other than departures chosen or planned by staff members themselves, there has been only one staff member who has lost a job. These mergers still created greater economies of scale & built capacity.
- Departure of an Executive Director, or existence of an Interim E.D. can provide a greater likelihood of success, and offers significant cost savings.

What Happens to Staff?

- Savings also possible from reduction in administrative positions such as finance and operations.
- Communication is key. For example, any potential fear of job loss can be quelled early in the process by stating this as an agreed principle in an early Memorandum of Understanding between the parties.

Complex Process

- Necessarily involves planning for dual scenarios (for some period of time): If merger is successful, and if parties decline to merge.
- Expectations of all parties need management
- Team building within and across organizations
- Leadership integration
- Dual reporting relationships
- Conflict management

Managing Expectations, Hopes and Fears

- Develop process working from vision gradually toward details.
- Sequence of events and how they are framed can make the difference between smooth and rocky processes; Don't tackle trickier issues until appropriate time.
- Facilitation plan to address misunderstandings, relationship problems, etc. that often involve autonomy, self-interest, politics or culture.
- Trust is crucial.

Managing Expectations, Hopes and Fears

- A consultant with merger experience can be very helpful, as there are many opportunities for an (unintended) statement, action or misunderstanding to derail the process. A “neutral” consultant with experience can address such issues proactively.
- Handle legal aspects carefully. Example: after the partners know what they want to accomplish, use attorneys to complete the deal, insure legality and appropriate structure; but recognize that attorneys can use or raise complex legal matters that may need further clarification from consultant or ED(s) to convert legalese to English.

Idealized Merger Process

1

Catalytic Event
Sense of Urgency

2

Interest and Intent:
Select Partner

3

Feasibility Assessment
(Merger and/or Partner)

4

Develop Shared Vision

5

Structure Deal

6

Address Third-Party
Considerations and Support

7

Finalize and Sign
Agreement to Merge

8

Systems Integration

Finding the Right Partner

You often don't need to look very far: In many mergers/consolidations, the partner:

- Has been an agency with program similarities & regular, close contact and relationships.
- Has been suggested by a trusted funder or stakeholder who knows both organizations, and made the recommendation based on fit of programs, culture, and customers.
- Has been an organization with similar/same mission serving adjacent geography.

However, sometimes, even the best, or only available partner may not want to dance.

Assessing a Good Fit ^[4]

- Trust
- History of working together
- Fit at executive and Board levels: Does self-interest get in way?
- Mission and Program fit
- Culture fit
- Situational factors: Are you in a crisis? How does your organization deal with risk?

Integrating Systems

- Board & E.D.: In a typical merger of “equals” agency A provides board chair and deputy director, agency B provides board vice chair and E.D. If not a merger of equals, have commensurate recognition of leadership in new structure (i.e. smaller/weaker organization gets less board seats).
- Finance and H.R.: Select better of two systems; good time for upgrade if needed.

Pay Attention to Politics and Culture for Success

Three types of factors are involved in a merger process:

- Technical
- Political
- Cultural

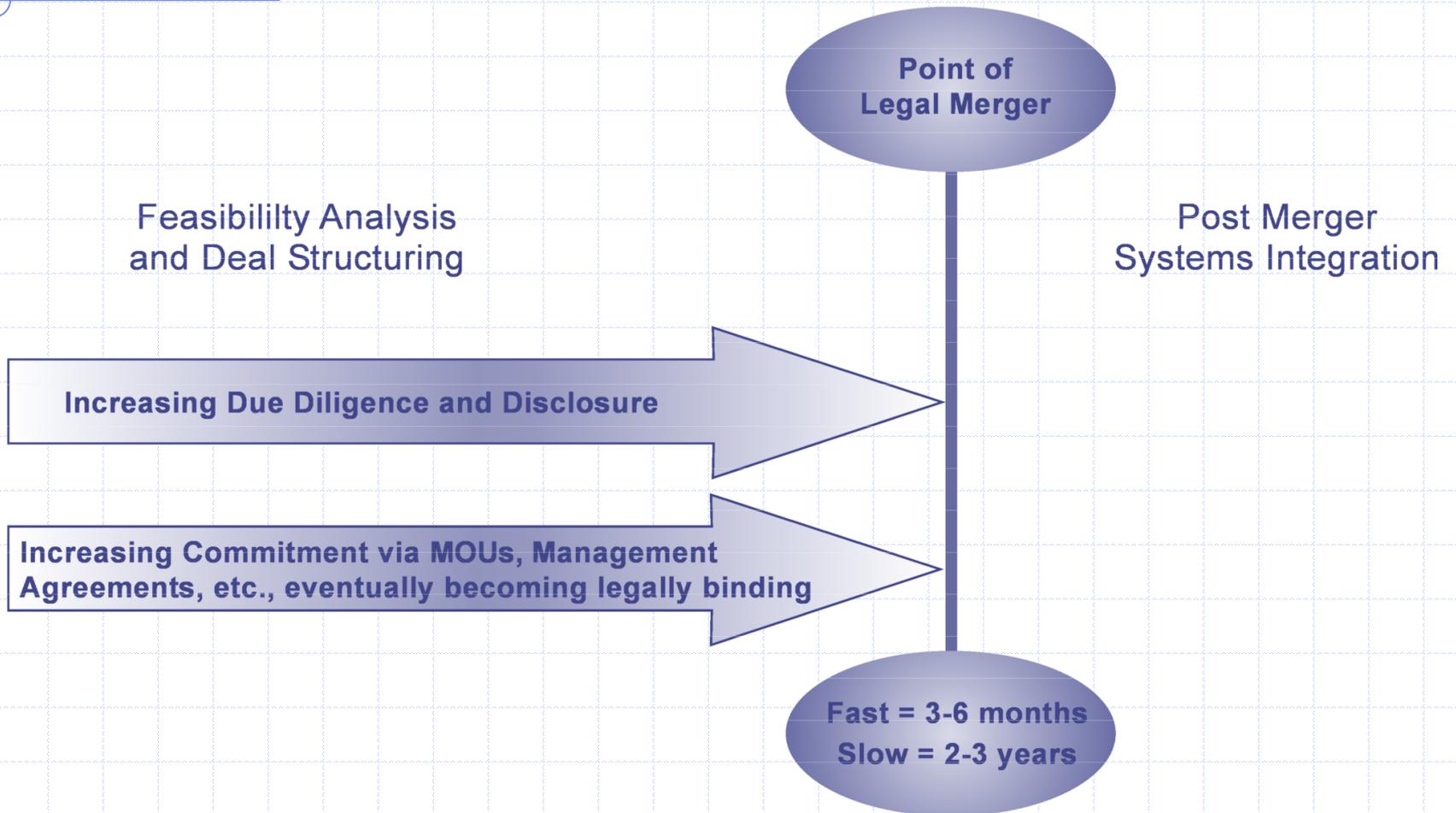
Pay Attention to Politics and Culture for Success

- Politics of local funding, local interests, or legislative politics can get in the way. Can easily throw a monkey wrench into a potential merger that could otherwise be an effective capacity-building strategy.
- Cultural differences between agencies are the most common reason for merged organizations not being well integrated. Examples:
 - Decision making: consensus vs majority
 - Philosophy of program design; conservative versus creative differences can be very difficult to bridge
 - Hierarchical vs. collaborative management

Technical Aspects less Problematic

Integration of HR, IT, Finance systems, bylaws etc – can all be accomplished. Even programs can be adjusted if necessary. Technical issues simply require time and effort.

Don't Rush It



Don't Rush It

- Time to implement often depends on:
 - Number and level of contractual relationships with third parties that require transfer, assignment, and/or extensive outside review.
 - Extent of political or cultural issues that require discussion and relationship-building.
- Longer time line means dealing with dual scenarios & ambiguity for longer.
- Thorough, well-planned process helps
- Shortcuts not possible.

Funding a Merger

- Costs may include:
 - Materials development: New logo, letterhead, web site, etc.
 - Legal costs
 - Consultant costs
 - Cost of systems integration such as financial management and I.T. systems
 - Severance package(s)
 - Moving
- Seek institutional funding to cover such one-time costs
- Consider funder overlap; how will operating funder overlap affect selection of organizational structure?

Life After a Merger

- Ideally, merger benefits both programs and financial position.
- Not a panacea: Still have day to day challenges such as fundraising, etc.
- Systems and culture integration may take time to work out.
- Benefits still very real, regardless of whether benefits are greater on mission or financial side.